

## MEMORANDUM

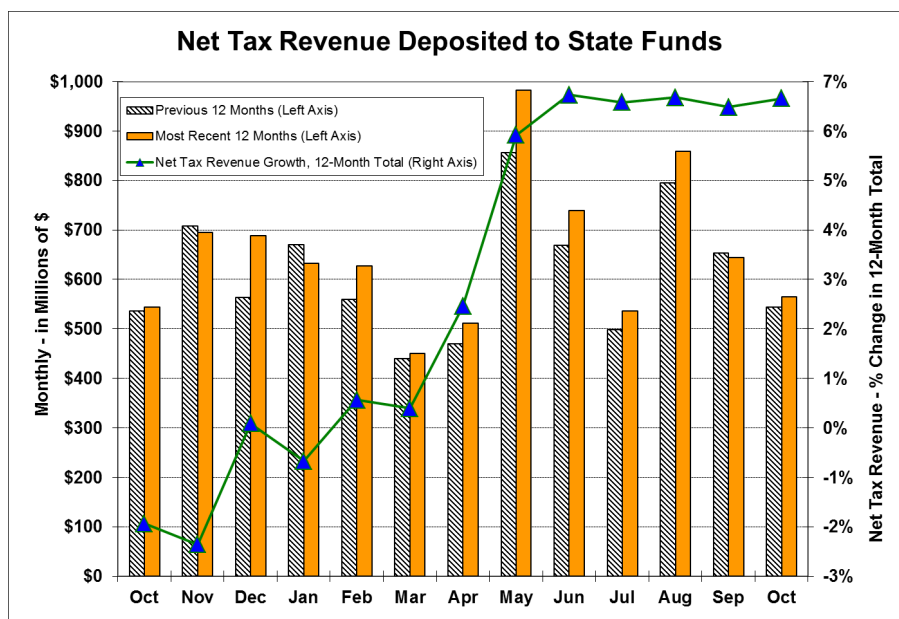
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: November 25, 2015

### Twelve-Month Total Net Tax Receipts Through October 31, 2015

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 2015 with comparisons to the previous 12 months. October 2014 to October 2015 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Despite a significant decline in corporate income tax net deposits this month, overall Iowa tax revenue increased 3.9% for the month. Aided by an increase in the State motor fuel tax, overall net tax revenue has been growing at an annual rate of 6.5% to 6.7% since June. Over the past 12 months, individual and corporate income tax, and fuel and banking taxes have posted strong gains. While sales/use tax growth has slowed recently, growth was modestly positive for the month of October and for the past year.

## Month of October 2015

October net tax receipts totaled \$565.3 million, an increase of \$21.1 million (3.9%) compared to October 2014. A significant decline (\$-40.4 million, -85.4%) in corporate income tax was more than offset by increases in almost every other tax revenue source. Sales/use tax reversed recent weakness and posted a modest gain (1.7%) for the month.

## Year-Over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2015, net revenue from all taxes deposited to State funds totaled \$7.929 billion, an increase of \$495.1 million (6.7%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

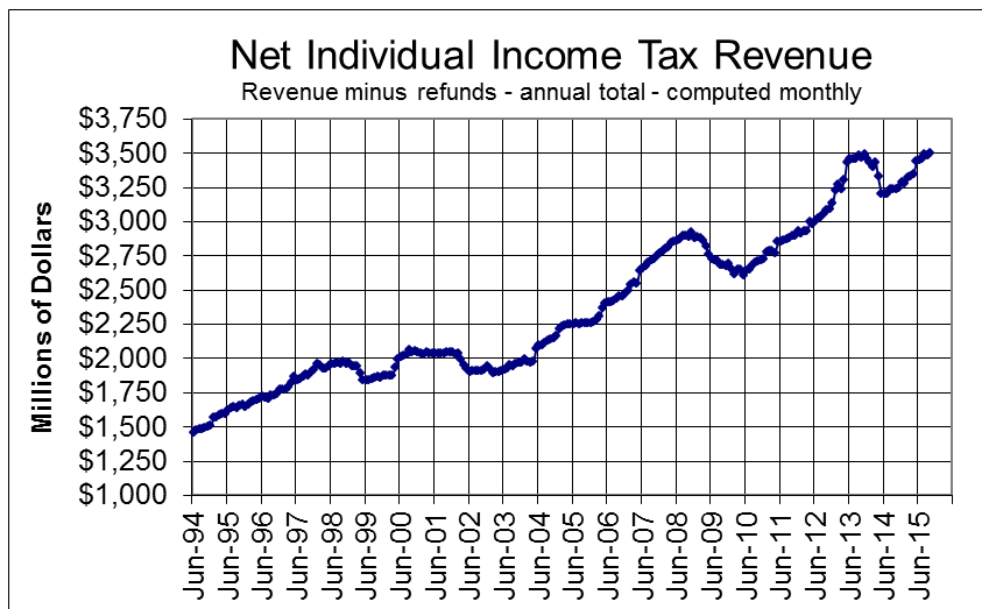
- Individual Income Tax (positive \$268.5 million, 8.3%) – After two years (FY 2013 and FY 2014) of significant swings caused in large part by changes in federal income tax rates and the introduction of an Iowa Taxpayer Trust Fund Tax Credit, the Iowa individual income tax has returned to its role as the main driver of Iowa tax revenue growth.
- Corporate Income Tax (positive \$35.5 million, 8.5%) – While still showing positive growth over the most recent 12 months, corporate income tax net deposits declined significantly in October as gross receipts were down for the month and tax refunds issued posted a large increase.
- Sales/Use Tax (positive \$40.2 million, 1.6%) – While gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased 6.6% over the last 12 months, sales/use tax deposited to the State General Fund decreased 3.8%. Over those same 12 months, refunds of General Fund sales/use tax payments increased \$45.1 million. It is this combination of low General Fund sales/use tax growth and high General Fund sales/use tax refunds that has produced the recent lackluster growth in net sales/use tax revenue.
- Bank Franchise Tax (positive \$10.9 million, 38.4%) – After a significant decline that began in March 2014, the annual growth in bank tax net revenue turned positive in April 2015. Over the most recent 12 months, tax deposits have increased while tax refunds have remained stable.
- Fuel Tax (positive \$115.0 million, 25.4%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 0.8% and taxable diesel sales decreased 1.3%. The combination of gasoline and diesel taxable fuel gallons increased 0.2% over the period. Due in large part to the Iowa gas tax increase (effective March 1, 2015), fuel tax net deposits increased \$111.6 million (41.8%) over the past six months.
- Gambling Tax (positive \$11.5 million, 4.0%) – According to Racing and Gaming Commission statistics, eight Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending October 2015. A new casino opened near Jefferson in July 2015. The combined AGR change for the 19 facilities was positive 2.4% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.426 billion, an amount that is 2.9% below the annual AGR peak (December 2012).
- Real Estate Transfer Tax (positive \$1.2 million, 6.4%).
- Cigarette and Tobacco Tax (positive \$6.3 million, 2.8%).

## Tax Spotlight – Individual Income Tax

Iowa individual income is taxed under the authority of [Iowa Code chapter 422, Division II](#). The Iowa individual income tax is imposed on the Iowa income of individuals, estates, and trusts. Married filers with a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or submit an Iowa income tax return. This “filing threshold” does not apply to taxpayers claimed as dependents on another tax return. Iowa uses federal adjusted gross income as the initial point for income tax calculation.

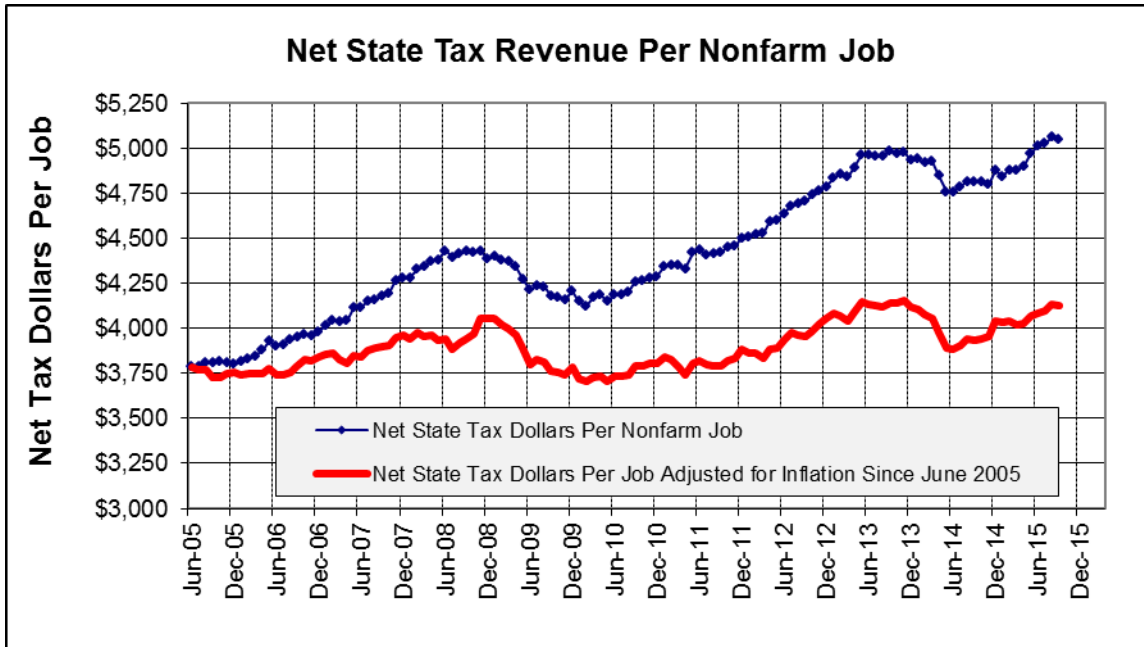
The Iowa individual income tax was first imposed in 1934 with a minimum rate of 1.0% and a maximum rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets ranging from an initial rate of 0.36% and a maximum rate of 8.98%. The income brackets are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2016 tax year, the maximum marginal tax rate applies to taxable income above \$69,930. Iowa taxpayers deduct 100.0% of federal income tax paid when calculating taxable income.

There are a large number of tax credits that may provide a reduction in individual income tax. A list is maintained by the [Iowa Department of Revenue](#). Individual income tax returns are filed by the last day of the fourth month following the end of the tax year (April 30 for most taxpayers). In some cases, individuals may be required to remit quarterly estimated tax payments. Withholding tax is due semimonthly, monthly, or quarterly, depending on the total amount of income tax withheld by the employer. In general, individual income tax revenue is deposited in the State General Fund. Pursuant to [Iowa Code section 422.16A](#), an annual amount of withholding tax revenue is deposited in the Workforce Development Fund. The annual amount was increased from \$4.0 million to \$6.0 million in [HF 2460](#) (FY 2015 Economic Development Appropriations Act). In certain instances, withholding tax may be paid to a community college (Iowa Code chapters [260E](#) and [260G](#)) or a [city](#) instead of the State General Fund.



## Tax Revenue and Employment

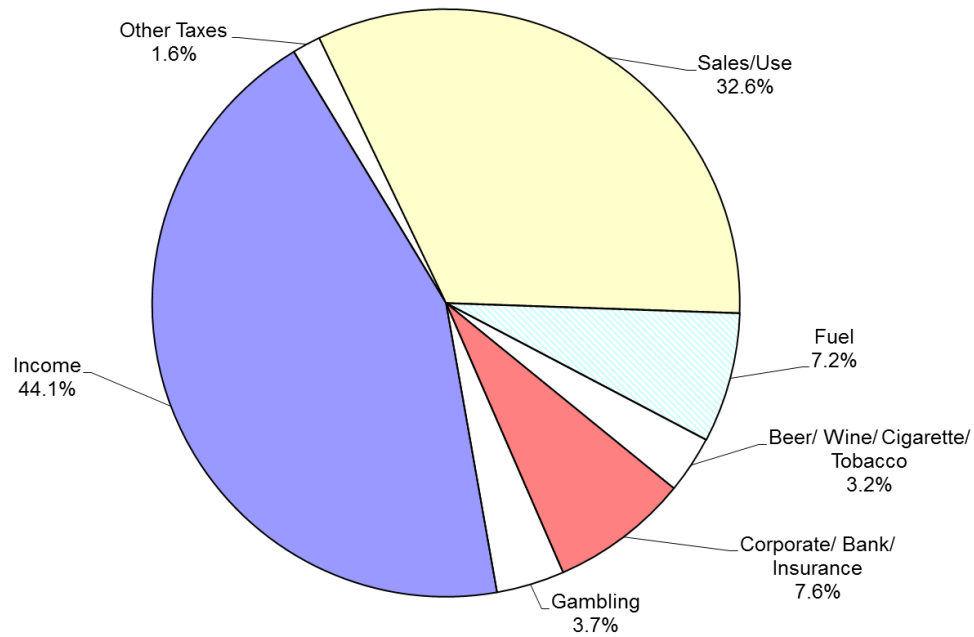
The average reading for Iowa nonfarm employment over the 12 months ending September 2015 is 1,566,100 and net State tax receipts over the same 12 months totaled \$7.908 billion, or \$5,050 per nonfarm job. This is \$1,265 higher than the per job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$343 since June 2005, and the remainder of the \$1,265 increase (\$922) represents the impact of inflation.



## Net State Tax Revenue - Twelve Months Ending October 2015

**Net Revenue = \$7.929 Billion**

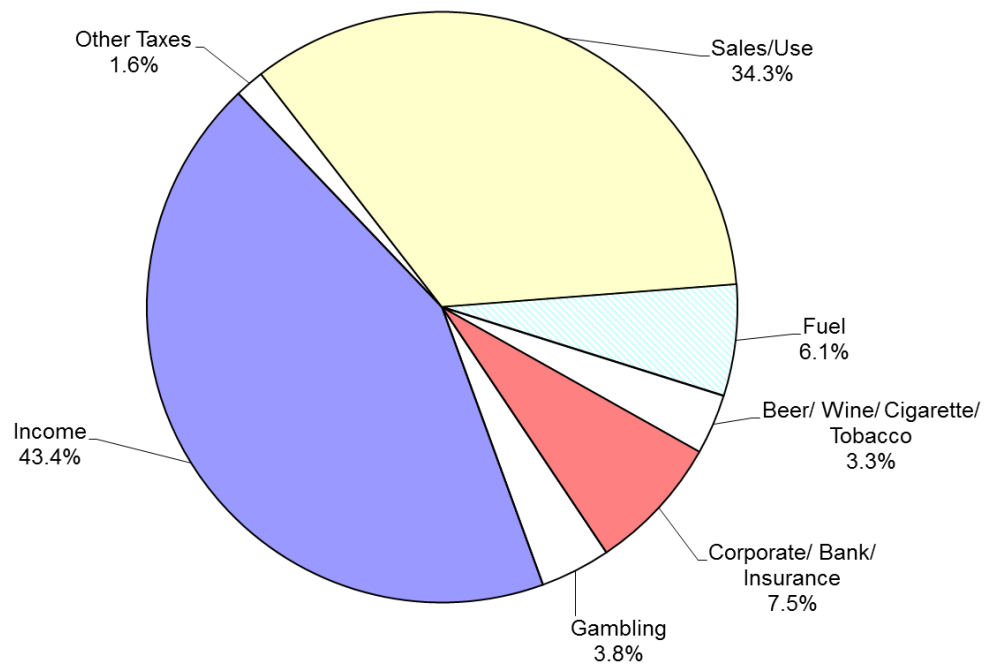
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending October 2014

**Net Revenue = \$7.434 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - columns and rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of October 2014	Month of October 2015	October \$ Change	October % Change
Banking	\$ 28.4	\$ 39.3	\$ 10.9	38.4%	\$ 1.5	\$ 5.2	\$ 3.7	246.7%
Beer & Wine	21.9	22.3	0.4	1.8%	1.7	1.4	- 0.3	-17.6%
Cigarette & Tobacco	222.6	228.9	6.3	2.8%	16.6	24.1	7.5	45.2%
Corporate Income	417.8	453.3	35.5	8.5%	47.3	6.9	- 40.4	-85.4%
Fuel	452.2	567.2	115.0	25.4%	42.3	65.6	23.3	55.1%
Gambling	285.8	297.3	11.5	4.0%	28.6	28.8	0.2	0.7%
Individual Income	3,229.3	3,497.8	268.5	8.3%	230.5	252.4	21.9	9.5%
Inheritance	89.4	87.5	- 1.9	-2.1%	9.4	11.7	2.3	24.5%
Insurance	108.0	110.4	2.4	2.2%	0.1	0.0	- 0.1	-100.0%
Other Taxes	11.6	16.7	5.1	44.0%	2.9	3.0	0.1	3.4%
Real Estate Transfer	18.7	19.9	1.2	6.4%	1.8	2.0	0.2	11.1%
Sales/Use	2,548.6	2,588.8	40.2	1.6%	161.5	164.2	2.7	1.7%
<b>Total Net Taxes</b>	<b>\$ 7,434.3</b>	<b>\$ 7,929.4</b>	<b>\$ 495.1</b>	<b>6.7%</b>	<b>\$ 544.2</b>	<b>\$ 565.3</b>	<b>\$ 21.1</b>	<b>3.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 8,891.5	\$ 9,394.0	\$ 502.5	5.7%	\$ 633.2	\$ 673.9	\$ 40.7	6.4%
Tax Refunds	\$ - 1,457.0	\$ - 1,464.5	\$ - 7.5	0.5%	\$ - 89.2	\$ - 108.5	\$ - 19.3	21.6%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,102.7	\$ 6,431.8	\$ 329.1	5.4%	\$ 421.4	\$ 409.5	\$ - 11.9	-2.8%
Road Use Tax Fund	\$ 797.4	\$ 939.1	\$ 141.7	17.8%	\$ 73.5	\$ 99.0	\$ 25.5	34.7%
Non-GF Gambling	\$ 284.2	\$ 295.7	\$ 11.5	4.0%	\$ 28.4	\$ 28.6	\$ 0.2	0.7%
Other State Funds	\$ 250.2	\$ 262.9	\$ 12.7	5.1%	\$ 20.7	\$ 28.3	\$ 7.6	36.7%
<b>Local Option Taxes *</b>	<b>\$ 904.4</b>	<b>\$ 966.4</b>	<b>\$ 62.0</b>	<b>6.9%</b>	<b>\$ 67.0</b>	<b>\$ 69.5</b>	<b>\$ 2.5</b>	<b>3.7%</b>

\* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority Fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited in the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of the State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a Statewide 1.0% sales/use tax and the revenue from that Statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% Statewide tax and the SILO tax was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% Statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments was added beginning July, 2014.

**Report Database:** The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.